Annual Report 1972

THE GRAND UNION COMPANY

GRAND
UNION

DIRECTORS

*THOMAS C. BUTLER	*Chairman of the Board*
EMERSON E. BRIGHTMAN	*Executive Vice President*
HELEN G. CANOYER	*Former Dean, School of Home Economics, University of Massachusetts*
*S. WILLIAM GREEN	*Regional Administrator, U. S. Department of Housing and Urban Development*
IRVING KAHN	*Associate, Abraham & Co., Inc., Securities New York City*
ROBERT J. McDONALD	*Partner, Law firm of Sullivan & Cromwell New York City*
RAFAEL PICO	*Vice Chairman, Banco Popular de Puerto Rico San Juan, Puerto Rico*
WILLIAM H. PREIS	*Senior Vice President*
*ARTHUR J. QUINN	*Chairman of the Executive Committee; President, The New York Bank for Savings*
*CHARLES G. RODMAN	*President and Chief Executive Officer*
ARTHUR ROSS	*Executive Vice President and Managing Director, Central National Corporation, Investments New York City*
EARL R. SILVERS, JR.	*Administrative Vice President and Assistant to the President*
*LAURENCE A. TISCH	*Chairman of the Board of Directors, Loews Corporation*

**Executive Committee*

DIRECTORS and OFFICERS The Grand Union Company

GRAND UNION

OFFICERS

CHARLES G. RODMAN	*President and Chief Executive Officer*
EMERSON E. BRIGHTMAN	*Executive Vice President*
THOMAS R. DOYLE	*Senior Vice President*
WILLIAM H. PREIS	*Senior Vice President*
EARL R. SILVERS, JR.	*Administrative Vice President and Assistant to the President*
ERNEST H. BERTHOLD	*Vice President*
PATRICK A. DEO	*Vice President*
J. BARRON LEEDS	*Vice President*
RALPH D. LYTLE	*Vice President*
JOHN D. O'CONNELL	*Vice President*
JAMES G. POULOS	*Vice President*
CARYLE J. SHERWIN	*Vice President*
VINCENT J. VENINATA	*Vice President*
CHARLES H. HAIGHT	*Treasurer*
LEONARD WOLFRAM	*Secretary and General Attorney*
JOHN H. MILBANK	*Assistant Treasurer and Controller*
BAXTER T. DUFFY	*Assistant Secretary*
FREDERICK H. GUNTSCH	*Assistant Secretary*

Transfer Agent

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, N.Y. 10015

Registrar

Chemical Bank
20 Pine Street
New York, N.Y. 10015

FINANCIAL HIGHLIGHTS 1972

	1972	1971
Sales	$1,379,681,445	$1,304,411,306
Income before income taxes and extraordinary items	15,676,554	26,738,046
Income taxes	6,685,000	12,720,000
Income before extraordinary items	8,991,554	14,018,046
Extraordinary items	612,141	1,000,000
Net income	8,379,413	13,018,046
Income per common share:		
Before extraordinary items	1.40	2.16
Extraordinary items	.10	.16
Net income	1.30	2.00
Cash dividends per common share	.80	.80
Net income as a percent of sales	.61	1.00
Working capital	65,652,561	64,812,026
Ratio of current assets to current liabilities	1.70 to 1	1.81 to 1
Average common shares outstanding	6,358,143	6,435,156
Number of common stockholders	15,682	15,036

THE GRAND UNION COMPANY 100 Broadway, East Paterson, N.J. 07407

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ANNUAL MEETING

The annual meeting of stockholders of The Grand Union Company will be held at 10 A.M. on Wednesday, May 23, 1973, in the Bergen and Passaic Rooms of the Marriott Motor Hotel, Interstate Route 80 and Garden State Parkway Interchange 159, Saddle Brook, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of April 6, 1973.

MANAGEMENT REPORT

President's Letter

Last year we set a new record in sales but had lower net earnings. Our sales during the 53-week 1972 fiscal year ended March 3, 1973, totaled $1,379,681,445, 5.8% above the $1,304,411,306 in sales during the 52-week 1971 fiscal year. This was our tenth consecutive year of sales gains.

Price competition of unprecedented intensity in the supermarket industry resulted in reduced profits in all areas in 1972, especially in the northeast. The pressure on margins was combined with continued increases in the cost of doing business. We maintained competitive prices and a strong sales program to hold our share of market.

Charles G. Rodman, center, President and Chief Executive Officer, looks on as Thomas C. Butler, right, Chairman of the Board, and Rafael Pico, the newest board member and Vice Chairman of the Banco Popular de Puerto Rico, examine a citation presented to Mr. Butler in March to honor his 25 years of service on the board.

Company net income in 1972 before a net extraordinary charge amounted to $8,991,554, or $1.40 per share of common stock, based on the average number of shares outstanding during the year. This represented a decrease of 36% from 1971 after-tax income of $14,018,046, or $2.16 per share.

Net income in 1972 after the net extraordinary charge of $612,141 was $8,379,413, or $1.30 per share, as compared to 1971 net income after a $1,000,000 extraordinary charge of $13,018,046, or $2.00 per share. During the year, Grand Union sold 264,874 shares of Mortgage Growth Investors stock and realized a gain of $507,859. This made it possible to reduce an extraordinary charge of $1,120,000 for losses from the closing of unprofitable operations to a net of $612,141.

We are making strong efforts to improve our sales, achieve a better over-all margin mix through new ventures into general merchandise lines and to increase our productivity. Positive programs are well underway in each of these areas and they augur well for future improvement of profits.

Better results are expected in 1973 for a number of reasons. Not the least of these is that last year was one of unprecedented physical growth with 46 new stores put into operation. We opened 28 supermarkets with 750,787 square feet of retailing capacity; a new 70,000 square foot Grand Way general merchandise store, 12 E-Z Shop convenience food stores with a total of 28,896 square feet and 5 Grand Distributors catalog showrooms with 83,925 square feet. During the year, 35 unprofitable stores, most of which were old and obsolete, were closed. Included were 31 supermarkets containing 424,925 square feet of space and 4 Grand Ways totaling 321,965 square feet.

While new stores in every category were opened, the greatest emphasis was on those with a margin-mix capable of producing profits above our industry's average.

Nine large Family Center supermarkets were put into operation, each half-again as large as today's typical supermarket and each offering expanded lines of general merchandise and a prescription drug department. We opened the first new Grand Way discount store since 1968, and the company's first catalog showrooms. The latter sell an extensive line of jewelry and general merchandise. We also tripled the number of convenience food stores, from 6 to 18.

As we mounted this major construction program, we also began moving into new areas where there is still large population growth. Two Family Centers were opened near Trenton, New Jersey, early in 1973, and more are planned in that area. Stores are also under construction in the vicinity of Baltimore, Maryland, marking a northward expansion of operations of the Washington Division. In Florida, where we already have a substantial East Coast operation, leases for new stores on the West Coast are being signed.

To support continuing expansion, a new perishables warehouse was opened in Florida last year and a new meat warehouse and processing center was put into operation at our Waterford distribution center in New York state.

To strengthen the company's position in the catalog showroom field, we signed a contract last December to acquire the assets and properties of Atlas Jewelers, with headquarters in St. Louis, Missouri. Shares of Grand Union stock are to be exchanged for the 31 leased discount store jewelry departments (19 in Grand Ways), one catalog showroom and a retail jewelry store belonging to Atlas. The closing is scheduled next month.

The joint venture with the Dart Drug Corporation of Landover, Maryland, announced in last year's Annual Report was terminated in October by mutual consent because both companies determined that their expansion plans could be accelerated by proceeding independently.

Grand Union remains fully committed to equal opportunity employment. Vigorous minority recruitment and training programs were continued last year. The Consumer Affairs Department continued to expand its role during 1972. Consumer advisory boards were set up for the Caribbean Division and the Grand Way general merchandise discount store division. Open dating, whereby we tell customers the last day on which a product can be sold, was extended to 80% of our own label perishable and semi-perishable items during the year. The department was instrumental in helping the company expand its price-per-measure information service to 354 stores. This year, the system will be in operation in more than 500 supermarkets.

To assist in financing expansion, insure an adequate supply of working capital and provide for the purchase of selected preferred stocks as interim investments, the company established in 1972 a $25,000,000 line of stand-by credit with The Chase Manhattan Bank, N.A., and Brown Brothers Harriman & Co.

Three senior officials were elected Corporate Vice Presidents during the year: Ernest H. Berthold, in charge of meat merchandising for the Supermarket Division, Patrick A. Deo, in charge of supermarket operations in the New York-New Jersey-Connecticut metropolitan area and Caryle J. Sherwin, who is responsible for merchandising of the company's Supermarket Division. Byron J. Cronin, a Corporate Vice President who had served Grand Union for more than 46 years and who made an outstanding contribution to the company retired as of April 1. I wish to express our appreciation for his loyal service.

Rafael Pico, a distinguished Puerto Rican and Vice Chairman of the Banco Popular de Puerto Rico, was elected a Director last November. He succeeded John E. Raasch, who had retired earlier in the year. We record with sorrow the death of Mr. Raasch on December 31, 1972. A former President of John Wanamaker, he served as a Director of Grand Union for twenty-four years and was Chairman of the Board from 1960 to 1966.

As outlined here and further documented in the review of operations that follows, our company is well positioned to resume its historical pattern of progress in 1973.

We Americans have long enjoyed the most efficient and productive food distribution system in the world. The time has now come, however, when that part of our disposable income required for food at home will stop becoming smaller each year. In ten years, this has declined from 16.1% to 12.3%. We believe that more of our income, not less, will be required for food in the future.

My thanks go to all Grand Union people whose efforts in 1972 laid the groundwork for a second century of unparalleled growth.

Charles G. Rodman

Charles G. Rodman
President

April 16, 1973

MANAGEMENT REPORT

Review of Operations

SUPERMARKET DIVISION

The vigorous growth pattern that has characterized the Supermarket Division over the last several years continued during 1972. Twenty-eight supermarkets, including nine Family Centers, were opened with a total of 750,000 square feet. Three additional supermarkets were enlarged and renovations costing $50,000 or more were completed at 23 stores. Expansion reached a peak in February. The company opened 13 new retail outlets, including 11 supermarkets. That was more than in any single month in its 101-year history.

During the year, 31 older food stores were closed. In many instances they were replaced with larger, more modern facilities to serve growing areas.

The challenge to supermarket operators during the early 1970's seems clear. Substantial rises in both operating expenses and disposable income call for larger stores operated at a maximum level of productivity and offering a product mix more heavily weighted than in the past with highly profitable lines of general merchandise. Food can then be sold more competitively and over-all earnings of the Supermarket Division improved.

This thinking is reflected in the 1973 development program for both new and existing supermarkets.

Thirty new supermarkets are planned, including 20 Family Centers. These are the larger, 33,600 square foot one-stop shopping stores that the company began to open last year. They represent today's most advanced supermarket concept. Each Family Center is designed to provide the housewife with virtually all of her basic weekly family needs during a single visit.

Most Family Centers also offer prescription drug services through Grand Rx pharmacies. Eleven pharmacies were opened in the company's larger supermarkets last year, bringing to 34 the number of pharmacies in operation. Thirteen more are planned for 1973 in Family Centers.

Plans call for the enlargement of 11 present food stores


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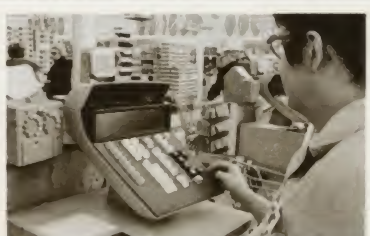
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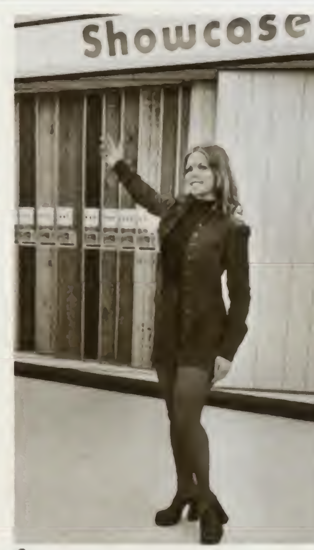

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(a) Opening day customers filled the new 70,000-square-foot Grand Way in Vestal, New York. It was the first Grand Way built since 1968.

(b) Electronic check-out installations such as this one went into operation during 1972 in the Ridgewood, New Jersey, Grand Union and Danbury, Connecticut, Grand Way stores.

(c) Nine Grand Union Family Centers like this one in Pawling, New York, opened during the past year. They represent today's most advanced supermarket concept.

(d) Modern, professionally-staffed Grand Rx pharmacies have been opened in most new Grand Union Family Centers.

(e) A Home Improvement Department, featuring a Paneling Showcase, has been added to the recently renovated Paramus, New Jersey, Grand Way. Plans call for similar departments to be opened in six other Grand Way stores.

and the renovation of 30 others this year at a cost of at least $50,000 each. All will be re-merchandised to increase both sales and profit potentials.

To keep pace with supermarket expansion, two new perishables support facilities were opened. A $2.7-million, fully-refrigerated meat and produce distribution center in Miami now serves the 52-store Florida Division, and a meat distribution center adjacent to the Waterford, New York, distribution facility serves 140 stores in the Empire Division.

Grand Union achieved a "first" in supermarket retailing on March 28, 1973, when the Dime Federal Savings & Loan Association opened a mini-branch in the company's food store in Cortland, New York. It is the only such facility in New York state, and believed to be one of the first in the East.

MORE CONVENIENCE FOOD STORES

The company's convenience food store division tripled in size during 1972. Eighteen E-Z Shop units were open at the end of the fiscal year. Stores in operation more than a year are running consistently ahead in volume and have established a pattern of year-to-year increases in sales.

Current plans call for the opening of approximately 30 new E-Z Shops in 1973 in New York and New Jersey. Six are under construction and sites for 25 others are under lease or in negotiation.

GRAND WAY DIVISION

Following a period of consolidation and streamlining that began in 1968 and was concluded in the last year with the closing of four stores, the company's Grand Way general merchandise discount store division is well prepared to resume expansion.

In late February, 1973, a 70,000 square foot Grand Way opened in Vestal, New York, with outstanding sales results. Less than a month later, the enlarged and completely refurbished 93,000 square foot Grand Way in Paramus, New Jersey, was launched.

Leases for four new Grand Way locations in New York state and Vermont are currently being negotiated. The stores are scheduled to open in fiscal 1974. Expansion on a similar scale is planned in 1975 and 1976.

An aggressive program of up-dating and re-merchandising stores in the division is well advanced. Plans include adding Home Improvement departments of 4,000 to 8,000 square feet in six stores; installing outdoor garden shops in another six; assuming company operation of the piece goods departments in all stores, and the upgrading of ready-to-wear presentations through new display techniques and new fixturing.

CATALOG SHOWROOMS OPENED

The company entered the highly profitable catalog showroom field during 1972 through its new Grand Distributors Division. Five showrooms were opened. Sales and profit projections were exceeded in the first six months of operation.

This widely-popular concept of mass merchandising attracts customers by means of handsome four-color catalogs illustrating more than 8,000 items of fine jewelry and general merchandise priced substantially below regular retails. After referring to a catalog, customers can go to the nearest Grand Distributors showroom where they are greeted by a brilliant display of jewelry in a most attractive modern setting. Displayed with the jewelry are giftwares in great variety, appliances, radios, television sets, stereos, cameras, sporting goods, toys and the like.

Catalog showroom selling is extremely economical. A minimum of sales help is required, overhead is low, wrapping costs are eliminated and pilferage is minimal. Showroom locations can be in low-rent areas. The showrooms generate maximum sales velocity per foot of display area. Bad check losses are virtually non-existent. All sales are for

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(f) Grand Distributors issues full-color catalogs illustrating many of the more than 8,000 general merchandise and fine jewelry items available in its showrooms.

(g) Triple-S Blue Stamp Redemption Centers are bright and colorful. More than $275-million in merchandise has been picked up in them by stamp savers since the company was founded in 1956.

(h) No smoke! That's the notation that a company executive is writing after inspecting a company-owned truck to make sure it conforms to Grand Union's stringent emission control standards.

(i) A Grand Union engineer checks specifications on a heat reclamation unit scheduled for installation in a new supermarket.

cash except those made to holders of approved credit cards.

Rapid expansion of the Grand Distributors Division is contemplated, with 12 more new showrooms planned to open prior to the peak pre-holiday sales season of 1973.

OTHER DIVERSIFIED ACTIVITIES

For the 17th consecutive year, Grand Union's wholly-owned Stop and Save Trading Stamp Corporation reached new highs, both in the number of Triple-S Blue Stamps issued and the number of saver books redeemed. More than $275-million in merchandise has been obtained by Triple-S stamp savers since 1956.

Grand Union is now the only major supermarket chain in many of its operating areas that offers customers a "total value" shopping opportunity comprised of competitive prices for food and general merchandise and the extra of trading stamps.

During 1973, supermarket shoppers buying a wide range of popular nationally advertised brands of grocery products will be offered extra bonus trading stamps of their choice with their purchases. This should further stimulate consumer interest in saving Triple-S Blue Stamps.

Sales and profits for the company's wholly-owned North American Equipment Corporation were substantially ahead of the previous year. Its newly-developed LOGIC-FLOW automatic pallet handling system is revolutionary in the field of warehouse materials handling. Completely automatic in operation, the system is controlled by an "electronic brain" that enables it to perform its tasks with minimum supervision by warehouse personnel.

LOGIC-FLOW moves pallets of any size and shape and weighing from 100 to 6,000 pounds at the rate of 60-feet-per-minute through the steel racks it traverses. This new North American product complements the company's other labor-saving materials handling equipment, including its widely used QUIK-PIK gravity-fed visible display, storage and selection equipment and its QUIK-KLEEN conveyor systems.

ADMINISTRATIVE DEVELOPMENTS

In the administrative area, there was increased emphasis on control of expenses in offices and on development of sophisticated computer applications. More than 21,000 employees are now paid weekly through an advanced computer program placed "on line" during the year. New computer billing and other systems, many months in the making, are now being completed. Important by-product reports from these systems cover broad areas of the company's operations and merchandising activities. These include automatic computer warehouse re-ordering, shelf allocation, store labor scheduling, store item movement, store ordering and many other such applications. Complete electronic check-out installations in our Ridgewood, New Jersey, supermarket and our Danbury, Connecticut, Grand Way, promise to be forerunners of an entirely new concept of check-out operations in self-service stores of the future.

IMPROVING PRODUCTIVITY

Productivity at store and warehouse level was increased in a variety of ways in 1972. Improved work scheduling programs covering employees in 168 stores were installed and 318 more stores will be included in the program by the end of this year.

Centralized meat cutting, which delivers boxes of sub-primal cuts — minus bone and fat — is improving productivity in the Washington and Florida Divisions and is soon to become operative in the Empire Division. By the end of the year, it is expected that 55% of all the company's supermarkets will be receiving boxed meats.

Cart delivery of grocery products from warehouse to store shelf is being extended in Florida and in the Washington area. Tests are being made on adapting this labor-saving system to produce and meat.

To reduce trash removal costs, the company is installing baling machines for corrugated cardboard in many stores. Ninety-two are so far equipped with balers.

Protection of the environment has a high priority at Grand Union. Most of the new supermarkets, for example, are using a heating system especially designed by company engineers that reclaims heat emitted from refrigeration units and returns it to the store for heating. This system not only helps to curtail the use of electricity and gas, but is also more economical in its operation.

Grand Union recently completed the conversion of its 194 company-owned trucks from gasoline to diesel power. Diesel emissions are far less dangerous to the environment since they emit very little carbon monoxide and hydrocarbons, two main ingredients of air pollution.

MANPOWER DEVELOPMENT

Manpower development continued to hold a top priority at Grand Union in 1972. Nearly 50 General Managers and 170 Departmental Managers for supermarkets graduated from the company's seven training schools. Special training courses were set up for managers of the company's new Family Center supermarkets. Cashiers going to work during the year were given a minimum of 12 hours training through 48 centralized programs before being assigned to check-out registers. Five apprentice meat cutting training programs were run, and six audio-visual training programs were viewed by a total of 17,642 employees.

Company personnel men recruit for management trainees on 74 campuses, including a number of predominantly black colleges and universities. Management trainees are also recruited from within the company and through personnel placement agencies. There are now 729 store and supervisory posts filled by management course graduates. Six corporate officers, three Operating Vice Presidents and one Division General Manager are former trainees.

CONSOLIDATED STATEMENTS OF INCOME and REINVESTED EARNINGS

The Grand Union Company and Subsidiaries

	Fifty-three weeks ended Mar. 3, 1973	*Fifty-two weeks ended Feb. 26, 1972*
Sales	$1,379,681,445	$1,304,411,306
Cost of sales	1,086,729,820	1,022,219,844
Gross profit	292,951,625	282,191,462
Operating and general expenses:		
Salaries and wages to employees in the sales department	136,926,512	125,536,508
Other selling, administrative and general expenses	140,235,824	129,364,214
	277,162,336	254,900,722
Operating income	15,789,289	27,290,740
Other deductions, net	112,735	552,694
Income before income taxes and extraordinary items	15,676,554	26,738,046
Income taxes (notes 1 and 2)	6,685,000	12,720,000
Income before extraordinary items	8,991,554	14,018,046
Extraordinary items (note 8)	612,141	1,000,000
Net income	8,379,413	13,018,046
Reinvested earnings, beginning of period	47,287,205	39,544,803
	55,666,618	52,562,849
Less, cash dividends:		
Common, 80¢ per share	5,082,979	5,148,418
Preferred	106,926	127,226
	5,189,905	5,275,644
Reinvested earnings, end of period	$ 50,476,713	$ 47,287,205
Income per common share (note 1):		
Income before extraordinary items	$1.40	$2.16
Extraordinary items	.10	.16
Net income	$1.30	$2.00

See accompanying financial notes

ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors, The Grand Union Company, East Paterson, N. J.:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of March 3, 1973 and the related statements of income and reinvested earnings and changes in financial position for the fifty-three week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the fifty-two weeks ended February 26, 1972.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Grand Union Company and Subsidiaries at March 3, 1973 and February 26, 1972, and the results of their operations and the changes in their financial position for the fifty-three and fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 16, 1973
520 Broad Street, Newark, N. J. 07102

COOPERS & LYBRAND

CONSOLIDATED BALANCE SHEETS

ASSETS

	Mar. 3, 1973	Feb. 26, 1972
Current assets:		
Cash	$ 2,808,981	$ 10,090,153
Temporary cash investments, at cost (approximates market)	3,629,951	10,473,851
Accounts receivable	5,514,461	5,985,953
Inventories (note 1)	127,549,382	108,006,914
Deferred federal income taxes (note 1)	4,364,187	3,482,362
Prepaid expenses and operating supplies	5,602,873	3,368,062
Properties to be sold within one year (note 1)	10,398,569	3,538,098
Total current assets	159,868,404	144,945,393
Property, at cost (note 1):		
Land	4,531,189	4,597,662
Buildings	6,640,090	7,812,179
Fixtures and equipment	133,472,385	123,887,826
Leasehold improvements	34,317,379	33,430,272
	178,961,043	169,727,939
Less, allowances for depreciation and amortization	83,079,123	76,065,373
Net property	95,881,920	93,662,566
Cost in excess of amounts of net assets at dates of acquisitions (note 1)	7,411,998	7,411,998
Other assets and deferred charges (note 8)	1,620,234	3,750,488
Total assets	$264,782,556	$249,770,445

See accompanying financial notes

LIABILITIES	Mar. 3, 1973	Feb. 26, 1972
Current liabilities:		
Note payable	$ 1,300,000	$ 1,300,000
Accounts payable and accrued liabilities	90,875,115	74,824,172
Federal income taxes (note 1)	2,040,728	4,009,195
Total current liabilities	94,215,843	80,133,367
Note payable	—	1,300,000
Subordinated debentures, 4⅛%, due 1978	533,000	550,000
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1973, $8,939,598; 1972, $8,283,366) (note 1)	3,000,000	2,800,000
Deferred federal income taxes (note 1)	11,807,215	10,546,190
Deferred investment tax credit (note 2)	717,900	1,024,800
Other noncurrent liabilities and reserves	751,612	1,147,792
	$111,025,570	$ 97,502,149
STOCKHOLDERS' EQUITY		
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 50,123 shares (note 3)	$ 2,506,150	$ 2,506,150
Common stock, $5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (notes 3 and 4)	33,045,390	33,045,390
Additional paid-in capital (note 3)	74,469,495	74,471,700
Reinvested earnings (note 5)	50,476,713	47,287,205
	160,497,748	157,310,445
Less, treasury stock at cost (note 3)	6,740,762	5,042,149
	$153,756,986	$152,268,296
Total liabilities and stockholders' equity	$264,782,556	$249,770,445

See accompanying financial notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

The Grand Union Company and Subsidiaries

	Fifty-three weeks ended Mar. 3, 1973	*Fifty-two weeks ended Feb. 26, 1972*
FUNDS PROVIDED:		
Income before extraordinary items	$ 8,991,554	$14,018,046
Charges (credits) to income not affecting working capital:		
Depreciation and amortization	13,938,000	12,845,000
Deferred income taxes and investment tax credit	497,000	206,000
Provision for stamp redemptions (non-current portion)	3,000,000	2,800,000
Other	362,500	465,000
Working capital provided from operations	26,789,054	30,334,046
Extraordinary items affecting working capital	(612,141)	(1,000,000)
Book value of securities sold	2,673,850	—
Book value of property sales and reductions	6,173,741	3,087,237
Sale of stock under stock option plan	5,740	437,637
Changes in other assets and liabilities, net	(290,155)	399,632
	34,740,089	33,258,552
FUNDS USED:		
Dividends	5,189,905	5,275,644
Property additions	22,331,091	23,416,570
Reduction in long term debt	1,300,000	1,300,000
Purchases of company's preferred and common stocks	1,706,558	1,785,299
Non-current portion of stamp reserve becoming current	2,800,000	2,450,000
Other non-current liabilities becoming current	572,000	803,000
	33,899,554	35,030,513
Increase (decrease) in working capital	$ 840,535	$ (1,771,961)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ (7,281,172)	$ 852,323
Temporary cash investments	(6,843,900)	(689,533)
Accounts receivable	(471,492)	352,789
Inventories	19,542,468	2,968,933
Deferred federal income taxes	881,825	1,024,186
Prepaid expenses and operating supplies	2,234,811	152,307
Properties to be sold within one year	6,860,471	891,143
	14,923,011	5,552,148
Increase (decrease) in current liabilities:		
Note payable	—	50,000
Accounts payable and accrued liabilities	16,050,943	7,364,459
Federal income taxes	(1,968,467)	(90,350)
	14,082,476	7,324,109
Increase (decrease) in working capital	$ 840,535	$ (1,771,961)

See accompanying financial notes

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

(a) Principles of Consolidation: The consolidated financial statements include the accounts of the company's subsidiaries, all of which are wholly owned. Cost in excess of amounts of net assets at dates of acquisition arises from acquisitions prior to November 1, 1970. The company does not believe that the excess has diminished in value and accordingly is not amortizing such amount.

(b) Inventory Valuation: Inventories are valued principally at the lower of average cost or market, using the retail method for store inventories.

(c) Properties to be Sold Within One Year: Properties expected to be sold within the ensuing year under sale and leaseback arrangements have been classified as current assets as of March 3, 1973. The February 26, 1972 financial statements have been reclassified for comparability.

(d) Depreciation: Depreciation is computed, principally on the straight-line method, to amortize the cost of depreciable properties over their useful lives.

(e) Pre-opening Costs: Pre-opening costs of new stores and carrying charges incurred for land held for development or sale are expensed as incurred.

(f) Income Taxes: Income taxes are provided on revenue and expense transactions included in the determination of financial statement income. Where such transactions are included in the determination of taxable income in a different year, such as the acceleration of depreciation, the resulting tax benefits are deferred. Current investment tax credits are being taken into income as the related assets are placed in service.

(g) Trading Stamp Revenue and Expense: The company records stamp revenue and provides for estimated cost of redemption at the time of issuance, based on periodically reviewed operating experience.

(h) Net income per share of common stock is based on the average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Outstanding stock options do not enter into the computation because they do not have a dilutive effect.

(2) Income Taxes: Income tax expense includes the following:

	1972	1971
Federal income taxes:	*(in thousands)*	
Current provision (net of investment tax credits of $950,000 and $550,000 respectively)	**$ 5,644**	$11,070
Deferred taxes, net	**408**	366
Amortization of deferred investment tax credit applicable to 1967 and prior years	**(307)**	(346)
	5,745	11,090
Other income taxes	**940**	1,630
	$ 6,685	$12,720

(3) Stockholders' Equity:

	1972	1971
(a) Additional paid-in capital:		
Balance, beginning of year	**$74,471,700**	$74,391,727
Excess of par value over cost of treasury preferred stock retired	**—**	305,003
Excess of cost of treasury common stock over amounts received under stock option purchases	**(2,205)**	(225,030)
Balance, end of year	**$74,469,495**	$74,471,700

(b) Treasury stock at cost:

	1972 Shares	1972 Amount	1971 Shares	1971 Amount
Balance, beginning of year:				
Common	202,723	$5,042,149	169,452	$4,346,264
Purchases:				
Common	82,710	1,574,019	59,106	1,358,553
Preferred	4,539	132,539	14,635	426,747
Preferred stock retired	—	—	(14,635)	(426,747)
Common stock issued on exercise of stock options	(327)	(7,945)	(25,835)	(662,668)
Balance, end of year:				
Common	285,106	6,608,223	202,723	5,042,149
Preferred	4,539	132,539	—	—
Total Amount		$6,740,762		$5,042,149

(4) Stock Options: A summary of the share activity of the 1964 stock option plan during fiscal 1972 follows:

Options outstanding, beginning of year	90,286
Options exercised, cancelled or expired	22,202
Options outstanding, end of year	68,084

(held by 942 employees at prices ranging from $24.00 to $24.50 per share.)

The options are exercisable through December 11, 1974. No further options may be granted under the plan.

(5) Restrictions on Dividends: The note, debenture and revolving credit (note 9) agreements contain certain dividend and other restrictions. At March 3, 1973, $7,100,000 of reinvested earnings are free of such restrictions.

(6) Property Leases: The company operates principally in leased stores, distribution centers and offices, and in fiscal 1972 had net rent expense of $21,703,000. Minimum annual rents, not including real estate taxes and additional amounts based on percentages of sales, for leases at March 3, 1973 are as follows:

Leases Expiring	*Number of Leases*	*Minimum Annual Rents*
1973-1975	251	$ 4,231,000
1976-1980	260	6,831,000
1981-1985	122	5,797,000
1986-1990	51	2,829,000
1991-2011	40	2,478,000
	724	$22,166,000

In addition, the company is contingently liable on 78 leases applicable to stores sold or not yet opened, expiring prior to 1999, and having minimum annual rents approximating $4,150,000.

(7) Pension Plan: The company maintains a trusteed pension plan covering all full-time employees, except those covered by labor union pension plans to which the company contributes. The company's policy is to fund pension cost accrued. During the year social security legislation was amended and the effect was to increase company contributions for social security benefits and reduce company contributions to the pension fund. Pension ex-

NOTES Continued

pense was $638,000 and $1,021,000 for fiscal 1972 and 1971, respectively.

(8) Extraordinary Items: Extraordinary items in fiscal 1972 consist of estimated losses of $1,120,000, net of income tax benefit of $1,120,000 of which $920,000 is deferred, from the closing of 5 stores completing the consolidation and streamlining of the Grand Way division less a gain of $507,859, net of $217,654 income taxes, on the sale of 264,874 shares of Mortgage Growth Investors. The extraordinary item in 1971 represents a provision for estimated losses in connection with discontinuing certain supermarkets and Grand Way stores. The provision was net of related income tax benefit of $1,000.000.

(9) Subsequent Event: Subsequent to March 3, 1973, $19,000,000 was borrowed under a $25,000,000 revolving credit agreement.

TEN YEAR FINANCIAL SUMMARY

(Dollar amounts in thousands except for per share figures)

FOR THE YEAR	*1972 (53 weeks)*	*1971*	*1970*	*1969*	*1968*	*1967 (53 weeks)*	*1966*	*1965*	*1964*	*1963*
Sales	**1,379,681**	1,304,411	1,200,831	1,113,374	1,017,413	935,864	836,242	779,683	740,040	667,417
Income before income taxes and extraordinary items (1)	**15,677**	26,738	30,921	32,886	27,399	22,125	20,304	20,352	18,572	14,370
Income taxes (1)	**6,685**	12,720	15,180	17,690	14,080	10,745	9,400	9,500	9,000	7,350
Income before extraordinary items	**8,992**	14,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572	7,020
Extraordinary items	**612**	1,000	—	—	—	—	—	—	—	—
Net income	**8,379**	13,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572	7,020
Per common share data (2):										
Income before extraordinary items	**1.40**	2.16	2.42	2.30	2.02	1.81	1.74	1.74	1.54	1.12
Extraordinary items	**.10**	.16	—	—	—	—	—	—	—	—
Net income	**1.30**	2.00	2.42	2.30	2.02	1.81	1.74	1.74	1.54	1.12
Cash dividends (3)	**.80**	.80	.80	.80	.59	.56	.54	.51	.49	.48
Stock dividends	**—**	—	—	—	5%	5%	5%	4%	4%	2%
Net income as a percent of sales	**.61%**	1.00%	1.31%	1.36%	1.31%	1.22%	1.30%	1.39%	1.29%	1.05%
AT THE YEAR END										
Ratio of current assets to current liabilities	**1.70 to 1**	1.81 to 1	1.88 to 1	1.86 to 1	2.10 to 1	2.03 to 1	1.97 to 1	1.94 to 1	1.96 to 1	2.08 to 1
Equity per common share (2)	**23.92**	23.38	22.15	20.50	19.13	17.50	16.20	15.00	13.77	12.71
Number of stores at year end:										
Supermarkets	**539**	542	543	534	537	532	531	527	513	499
Grand Way stores	**23**	26	31	31	31	30	30	25	25	23

(1) For 1966 and prior years taxes on income other than federal were classified as administrative and general expenses and not as income taxes.

(2) Adjusted for common stock dividends.

(3) Dividends on common stock were paid at an annual rate of 80 cents per share in 1969 through 1972 and at an annual rate of 60 cents per share in prior years.

THE GRAND UNION COMPANY

GRAND UNION
SUPERMARKETS

539 GRAND UNION SUPERMARKETS

The Grand Union Company operates 539 supermarkets and Family Centers in 11 states along the Eastern seaboard and in Puerto Rico and the U. S. Virgin Islands. As of the close of the 1972 fiscal year, the company had 270 food stores in New York, 61 in New Jersey, 52 in Florida, 32 each in Connecticut and Vermont, 26 in Virginia, 22 in Maryland, 18 in New Hampshire, 16 in Puerto Rico, five in Massachusetts, two each in Pennsylvania and the U. S. Virgin Islands and one in West Virginia.

GRAND WAY
DISCOUNT STORES

23 GRAND WAY GENERAL MERCHANDISE DISCOUNT STORES

Through its Grand Way general merchandise discount store division, Grand Union operates a total of 23 department stores. These include 10 in New York, four in Connecticut, three in Florida and New Jersey, two in Pennsylvania and one in Vermont.

TRIPLE S BLUE STAMPS
SSS

60 TRIPLE-S REDEMPTION CENTERS

The Triple-S Blue Stamp Company, a wholly-owned subsidiary of Grand Union and the nation's sixth largest trading stamp firm, maintains operations in seven states. This includes 33 redemption centers in New York, nine in New Jersey, eight in Florida, five in Connecticut, two each in Massachusetts and Vermont and one in Maryland.

E-Z SHOP
CONVENIENCE FOOD STORES

18 E-Z SHOPS

Begun as an experimental project in 1969, the E-Z Shop convenience food store division of Grand Union tripled in 1972 to 18 stores with 16 in central New York State and two in the Binghamton area. Rapid expansion of this division is planned during 1973 with new stores planned further west in New York State, south to New Jersey, and east into Massachusetts.

gcs
grand catalog showrooms

5 GRAND DISTRIBUTORS CATALOG SHOWROOMS

Since it announced its entry into the catalog showroom field in April, 1972, Grand Union has opened five Grand Distributors Catalog Showrooms in two states, including four showrooms in New Jersey and one in Connecticut. Twelve showrooms are planned to open during 1973.

GRAND
RX
DRUGS

34 GRAND Rx PHARMACIES

Full service Grand Rx pharmacies are now in 34 Grand Union and Grand Way stores, including 22 in Florida and six each in New York and New Jersey. These departments provide complete prescription drug service from professionally trained and registered pharmacists. Grand Rx pharmacies are a feature in Grand Union's new Family Centers.

NA
NORTHAMERICAN
EQUIPMENT CORPORATION

NORTH AMERICAN EQUIPMENT CORPORATION

Headquartered in Kenilworth, New Jersey, this wholly-owned subsidiary of Grand Union manufactures materials handling equipment. Among its products are an automatic pallet handling system that is revolutionary in the field of warehouse materials handling, and a gravity-fed visible display, storage and selection apparatus.

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THE GRAND UNION COMPANY

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